APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

[Filed December 6, 2001]

No. 00-2728

C.R. BARD, INC.,

Appellant,

v.

W.L. GORE & ASSOCIATES, INC.

On Appeal from the United States District Court
for the District of New Jersey
(D.C. Civil No. 97-cv-00517)
District Judge: Honorable John C. Liftland

Argued November 8, 2001

MEMORANDUM OPINION

Before: McKEE, RENDELL, and STAPLETON, *Circuit Judges*.

RENDELL, *Circuit Judge*.

C.R. Bard, Inc. ("Bard") appeals the District Court's grant of summary judgment in favor of W.L. Gore and Associates, Inc. ("Gore"). We agree with the District Court that the actual language of the parties' settlement agreement neces-

sitates judgment for Appellee as a matter of law, and, accordingly, we will affirm the District Court's grant of summary judgment.

The District Court had jurisdiction based on 28 U.S.C. § 1332. We exercise jurisdiction pursuant to 28 U.S.C. § 1291. Our review of the District Court's summary judgment ruling is plenary. *Armbruster v. Unisys Corp.*, 32 F.3d 768, 777 (3d Cir. 1994).

As we write solely for the parties, who are familiar with the facts and procedural background of this case, we will only discuss the legal issues presented and material facts relating thereto.

The issue before the District Court was essentially whether the conditions specified in paragraph six of Bard and Gore's 1984 settlement agreement had occurred. Specifically, whether the litigation between Gore and International Medical Prosthetics Research Associates, Inc. ("IMPRA") in the United States District Court for District of Arizona ("Arizona court") resulted in "a Final Judgment . . . which [held] invalid each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35 and 36 of the ['390 Patent] . . . ." App. at 165D. The District Court found that such a final judgment did not occur, because the Arizona court only held claims 9, 12, 16, and 35 invalid, and therefore Bard improperly withdrew Gore's option to obtain a license in the "Goldfarb patent." [1] App. at 1-22.

We agree with the District Court that the words of the contract here, the 1984 settlement agreement, are clear and unambiguous. Because no evidence was provided that the parties intended another meaning, we will not deviate from the express words of the contract. *See American Cyanamid*

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[1] Appellant makes an additional argument regarding the effect of the Arizona court's vacatur that need not be addressed in light of our ruling.

Co. v. Fermenta Animal Health Co., 54 F.3d 177, 182 (3d Cir. 1995). According to the words of the contract, "each and every one of" five claims must be held invalid, therefore four out of five of the claims being held invalid is not enough to satisfy the condition subsequent.

We also reject Appellant's argument that "holds invalid" has a broader meaning than what is explicitly stated in the Arizona court's amended judgment. Claim 36 was not held invalid by implication, because it is clear from the Arizona court's judgment that it was only holding claims 9, 12, 16, and 35 invalid. App. at 935-36. We will not now decide that the Arizona court actually meant to "hold invalid" a claim that was never even placed into issue before it. We also reject the argument that claim 36 was "held invalid" because it is necessarily invalid as a derivative of the other claims. App. at 934-36. That analysis would involve an exercise not anticipated by the plain language of the parties' agreement. Further, as the District Court explained: "the fact that two claims of a patent are invalidated does not mean that a third claim that is a combination of some of the elements of those invalid claims is necessarily invalidated as well." App. at 17.

In addition, as the District Court properly reasoned:

> [T]he Court will not rewrite the voluntarily negotiated and mutually adopted 1984 Settlement Agreement just because one of the parties is unhappy with it now. Because of the absence of any evidence supporting Bard's current reading, the Court finds that these sophisticated parties and their competent legal counsel meant what they said when they set forth the very specific requirement that a federal court must hold invalid "each and every claim asserted against Bard,"

and then went on to list by number all five claims, "claims 9, 12, 16, 35 and 36," before the Goldfarb option may be withdrawn.

Because the Arizona court's final judgment did not hold claim 36 invalid, we find that the District Court properly ruled that Appellee was entitled to judgment as a matter of law.

We will affirm the District Court's judgment.

Please file the foregoing memorandum opinion.

/s/ Marjorie O. Rendell
MARJORIE O. RENDELL
Circuit Judge

Dated: Dec. 6, 2001

APPENDIX B

UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

[Filed Aug, 14, 2000]

CIVIL ACTION NO. 97-517 (JCL)

C.R. BARD. INC.,

Plaintiff,

v.

W.L. GORE & ASSOCIATES, INC.,

Defendant.

OPINION

LIFLAND, *District Judge*

Presently before the Court are defendant's motion for summary judgment dismissing plaintiff's complaint and plaintiff's cross-motion for summary judgment. At issue is whether plaintiff was justified in terminating defendant's option rights to a patent license under the terms of a 1984 settlement agreement between the parties. For the reasons set forth herein, defendant's motion will be granted and plaintiffs cross-motion will be denied.

BACKGROUND

Plaintiff C.R. Bard. Inc. ("Bard") filed this suit against defendant W.L. Gore & Associates. Inc. ("Gore") seeking a declaratory judgment of the rights of the parties under a settlement agreement between them entered into in resolution of a 1984 patent infringement lawsuit ("the 1984 Settlement Agreement"). Bard seeks a declaration that it properly withdrew a contractual option to a patent license. Bard had

granted the option to Gore as part of the 1984 Settlement Agreement. Bard asserts that the contractual condition subsequent allowing withdrawal has occurred or in the alternative, that the condition should be excused because Gore demonstrated bad faith by hindering the occurrence of the condition.

Gore contends that the condition subsequent has not occurred and that Bard thus wrongfully served notice that it was withdrawing the option.

Gore has moved for summary judgment dismissing Bard's complaint in its entirety, arguing that Bard is not entitled to a declaratory judgment because the condition subsequent has not occurred and because Gore did not hinder the condition's occurrence in bad faith. Bard has cross-moved for summary judgment on its complaint, arguing that it is entitled to a declaratory judgment that it was justified in withdrawing the patent license.

The following facts are undisputed. Bard and Gore each manufacture and sell healthcare products, including products for the treatment of cardiovascular problems such as intravascular implants. Gore owned U.S. Patent No. 4,187,390 ("the '390 Patent"), which issued in June 1977 and is now expired; the patent pertains to a prosthetic vascular graft made of expanded polytetrafluoroethylene ("e-PTFE"). Gore sued Bard in 1984 ("the Initial Action"), alleging that Bard's manufacture of similar vascular grafts made of e-PTFE constituted infringement of claims 9, 12, 16, 35. and 36 of the '390 patent.

After limited discovery in the Initial Action, the parties entered into the 1984 Settlement Agreement. Bard consented to the entry of a final judgment and a permanent injunction requiring Bard to cease manufacturing the vascular grafts, destroy its remaining stock of e-PTFE vascular grafts, pay Gore $600,000, and grant Gore an option to obtain a

non-exclusive sublicense to use a then-pending patent ("the Goldfarb patent") for another prosthetic vascular graft. At Bard's request, that option ("the Goldfarb option") was made subject to a condition subsequent under which the option could be withdrawn. Paragraph 6 of the 1984 Settlement Agreement, which sets forth the conditions under which the option may be withdrawn, states as follows:

> In the event that there is a final judgment of a United States court from which no appeal has been or can be taken and which holds invalid each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35, and 36 of United States Patent No. 4,187,390, then Bard may, in its sole discretion, to be exercised by notifying W.L. Gore in writing, withdraw the option to obtain a sub-license under any patents issuing on the Goldfarb patent application as set forth in Paragraph 3 hereof or cancel any such sub-license if previously granted.

(Ellis Decl. Ex. 5. ¶ 6). Whether this condition subsequent was met, or should be excused because Gore hindered its occurrence in bad faith, and thus whether withdrawal of the Goldfarb option was justified, is the focus of the present lawsuit.

Bard's lead counsel in the Initial Action was Charles Smith, Esq., of the law firm Fish & Neave. Gore's lead counsel was David H. Pfeffer, Esq., of the law firm Morgan & Finnegan. The 1984 Settlement Agreement was the result of discussions between Smith and Pfeffer on behalf of and in consultation with their respective clients. No direct discussions were held among the parties themselves. The initial draft of the 1984 Settlement Agreement was prepared by Pfeffer and was sent to Smith for review. Smith made certain changes to the draft and returned it to Pfeffer. Those changes were incorporated and the 1984 Settlement Agreement took effect on March 26, 1984.

There has been discovery, and neither Smith nor Pfeffer recalls the details of the conversations that resulted in the 1984 Settlement Agreement and neither can recall any specific discussions concerning Paragraph 6. Furthermore, neither attorney recalls the parties having expressed any intentions with regard to any special meaning of the terms used in Paragraph 6.

Shortly after the 1984 Settlement Agreement, Gore sued International Medical Prosthetics Research Associates, Inc. ("IMPRA") in the United States District Court for the District of Arizona, alleging that IMPRA's vascular graft infringed Gore's '390 patent. In that lawsuit, Gore asserted claims 9, 12, 16, and 35 of the '390 patent, but not claim 36. The Arizona court entered judgment in IMPRA's favor on July 10, 1990. It held all of the asserted claims to be invalid ("the Arizona Judgment"). The Arizona court certified its judgment as a final judgment under Federal Rule of Civil Procedure 54(b) in order to allow an immediate appeal to the Federal Circuit.[1]

Gore appealed to the Federal Circuit; the appeal was fully briefed and oral argument was heard. Before the Federal Circuit issued a decision, IMPRA and Gore settled their dispute by way of a settlement agreement dated July 7, 1993 ("the Arizona Settlement Agreement"). In accordance with the settlement, the parties filed a joint motion to dismiss the appeal. That motion included a joint request from the parties that the Federal Circuit vacate the Arizona Judgment. The Federal Circuit issued an order dismissing the appeal and vacating the Arizona Judgment on August 4, 1993. Pursuant thereto, the Arizona District Court entered judgment dismissing the action on October 1, 1993.

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[1] IMPRA had also asserted counterclaims for anti-trust violations and unfair competition, but they were bifurcated from the patent claims for later discovery and trial. They were not addressed in the court's July 10, 1990 decision.

In May 1994, Bard gave written notice to Gore that it intended to withdraw the Goldfarb option, stating that the condition subsequent allowing withdrawal had occurred. In response, Gore denied that the condition subsequent had occurred. The '390 patent expired on April 27, 1993.

In September 1996, Bard acquired 100 percent of the outstanding stock of IMPRA, and IMPRA has since been a wholly-owned subsidiary of Bard.

Bard commenced this action on January 31, 1997 and seeks a declaratory judgment that it properly withdrew the Goldfarb option because the condition subsequent contained in Paragraph 6 of the 1984 Settlement Agreement had occurred. Bard contends that the Arizona decision invalidated all five of the claims that Gore had asserted against Bard in the Initial Action and that Bard was thus justified in withdrawing the option.

In an Order dated July 27, 1997, this Court granted Gore's motion to dismiss the complaint pursuant to Federal Rule of Civil Procedure 12(b)(6). The Court found that Bard did not have the right to withdraw the Goldfarb option because the Arizona Judgment did not address claim 36 and thus the condition allowing withdrawal of the Goldfarb option—that a final judgment of a federal court hold invalid each and every one of the five claims asserted in the Initial Action—did not occur.

The Third Circuit reversed this Court's decision on August 6, 1997. It held that this Court should not have resolved the case on a motion to dismiss but should have allowed discovery into the intent of the parties regarding the terms of Paragraph 6 when they entered into the 1984 Settlement Agreement. Specifically, the Third Circuit stated, "we are not satisfied that at this stage of the proceedings the complaint should be so confined that it cannot accommodate Bard's theory that the Arizona litigation held claim 36, as well as the other claims, invalid." The opinion also noted, "While it well may be that at the end of discovery if Gore

moves for summary judgment the court may determine that its initial conclusion was correct, still Bard, and, of course, Gore as well, should have the opportunity to engage in the discovery process." The parties have since engaged in discovery and both parties have now moved for summary judgment on the only disputed issue, whether the condition subsequent in the 1984 Settlement Agreement has occurred.

STANDARD OF REVIEW

Summary judgment may be granted if the record indicates that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. *See* Fed. R. Civ. P. 56(c); *Valente v. Pepsico, Inc.*, 454 F. Supp. 1228, 1235 (D. Del. 1978). Where the material facts are not in dispute and the issues contested in a summary judgment motion are legal issues, the court may proceed to decide the legal issues and rule accordingly on the summary judgment motion. *See Ingram v. County of Bucks*, 144 F.3d 265, 267 (3d Cir.1998). As will be seen, such is the case here.

DISCUSSION

A settlement agreement is a contract and is interpreted according to principles of state contract law. *See Wilcher v. City of Wilmington*, 139 F.3d 366, 372 (3d Cir.1998). When examining a contract, the court must seek the intent of the contracting parties as they objectively manifest it. *See Sanford Investment Co., Inc. v. Ahlstrom Mach. Holdings, Inc.*, 198 F.3d 415, 421 (3d Cir.1999). The court must ascertain the intent of the parties as it is expressed in the language of the contract and the surrounding circumstances rather than in the subjective view of any of the parties. *See Air Master Sales Co v. Northbridge Park Co-Op, Inc.*, 748 F. Supp. 1110, 1115 (D.N.J. 1990) (citing *Dome Petro. Ltd. v. Employers Mut. Liability Ins. Co.*, 767 F.2d 43, 47 (3d Cir. 1985) (stating that interpretation of a contract depends not on

"discovery of undisclosed subjective intent," but on the manifestation of intent in the language of the contract and the surrounding circumstances)). This is a two step-process that requires the court first to ask if the contract is ambiguous, which is a question of law for the court to resolve. *See Sanford Investment*, 198 F.3d at 421. If the court finds that the contract is ambiguous, then the second step is to interpret the contract's terms, which is a question of fact to be resolved by the fact finder in light of the evidence offered by the parties to support their respective interpretations. *See id.*

In conducting the first step, inquiring into whether the contract is ambiguous, the court "assumes that the intent of the parties . . . is embodied in the writing itself, and when the words are clear and unambiguous the intent is to be discovered only from the express language of the agreement." *Id.* (citing *Pacitti v. Macy's*, 193 F.3d 766, 773 (3d Cir. 1999)). But the court is not bound by the four corners of the contract and it may assess the contract in the context in which it was made to determine the parties' intentions. *See id.* The court may consider, among other things, "the words of the contract, the alternative meaning suggested by counsel, and the nature of the objective evidence to be offered in support of that meaning." *See id.* (quoting *Mellon Bank, N.A. v. Aetna Business Credit, Inc.*, 619 F.2d 1001, 1011 (3d Cir. 1980)). A term is ambiguous if it is susceptible to more than one reasonable interpretation. *See Sanford Investment*, 198 F.3d at 421 (citing *Mellon Bank*, 619 F.2d at 1011 (defining ambiguity as an "[i]ntellectual uncertainty [or] the condition of admitting two or more meanings, of being understood in more than one way, or referring to two or more things at the same time . . . .")).

When looking to the circumstances surrounding the contract, the court must remain focused on the language chosen by the parties and give the words their "commonly understood meaning" where that meaning is unambiguous

and the extrinsic evidence would not suggest a different meaning. *See American Cyanamid Co. v. Fermenta Animal Health Co.*, 54 F.3d 177, 182 (3d Cir. 1995) ("[T]he focus must remain on the language chosen by the parties, and a text unambiguous when accorded the commonly understood meaning of its words cannot be disregarded unless the extrinsic evidence is such as might cause a reasonable fact finder to understand the text differently.") (citing *Mellon Bank*, 619 F.2d at 1011 & 1012 n.13). When the factual evidence does not indicate that the parties intended the language of the contract to have any special meaning beyond the common meaning of the contract's terms, there is no reason for the court to deviate from those words. *See Proprietor's Realty Co. v. Wohltmann*, 95 N.J.L. 303, 304 (1921) ("In construing a written contract the words employed will be given their ordinary and popularly accepted meaning, in the absence of anything to show that they were used in a different sense.").

1) *The Settlement's Terms*

To prevail on its motion for summary judgment, Gore must demonstrate that any one of the conditions specified in Paragraph 6 of the 1984 Settlement Agreement did not occur, that is, that a federal court did not render a

> final judgment from which no appeal has been or can be taken . . . which holds invalid each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35, and 36 of the United States Patent No. 4,187,390.

To prevail on its cross-motion for summary judgment, Bard must demonstrate that all of these conditions occurred.

Now that discovery has been conducted and completed, the parties agree that there was no special intent of the parties embodied in the terms of Paragraph 6 of the 1984 Settlement Agreement, other than the plain meaning of the words. Thus, after more than two years of discovery after this case was

remanded, the Court returns to the issue of whether the plain meaning of the terms of Paragraph 6 were met by the Arizona Judgment.

Gore argues that the plain meaning of Paragraph 6 is that all five claims that Gore asserted against Bard in the Initial Action must be specifically held invalid in a final judgment by a federal court before Bard would be justified in withdrawing the Goldfarb option. Gore argues that the Arizona Judgment does not come within that plain meaning because only four of the five claims were raised and adjudicated in the Arizona action. Gore argues that the plain meaning of "each and every one of the claims asserted against Bard, *i.e.*, claims 9, 12, 16, 35 and 36" is that a federal court must specifically hold all five claims, not four out of five, to be invalid.

Bard responds that the Court's focus should not be on the words "each and every one of the claims"' but on the words "holds invalid," and Bard offers two arguments that the Arizona Judgment held invalid claim 36 and thus satisfied the terms of Paragraph 6 and justified withdrawal of the Goldfarb option. First, Bard argues that the Arizona Judgment expressly invalidated claim 36 because it invalidated the entire '390 Patent. Second, Bard argues that the Arizona Judgment impliedly held claim 36 invalid, because its invalidation of the other four claims would have a collateral estoppel effect barring Gore from asserting the validity of claims under the '390 patent, including claim 36; thus, Bard argues invalidation of claim 36 must have been part in the holding of the Arizona Judgment.

a) *Plain Meaning*

As discussed above, in the absence of a special meaning indicated by the evidence, the Court must grant to the terms of a contract the commonly understood meaning of the words. *See American Cyanamid*, 54 F.3d at 182. In deciding the prior motion to dismiss in this case, this Court found that the

meaning of Paragraph 6 of the 1984 Settlement Agreement was plain, that is, that "final judgment . . . which holds invalid each and every one of the claims" means that every single claim asserted in the Initial Action must be held invalid by a later court ruling before the Goldfarb Option could be withdrawn. The language of Paragraph 6 appears to have been carefully crafted, its words chosen with deliberate precision by highly competent legal counsel for sophisticated parties who deal regularly with patent claims. Given those surrounding circumstances, the Court found that by stating that "each and every one of the claims" and then going on to list them, "*i.e.*, claims 9, 12, 16, 35, and 36 of the United States Patent No. 4,187,390," the parties contemplated that there could be a subsequent judgment addressing fewer than all five of the claims asserted in the Initial Action. The precise language of Paragraph 6 underscores the intent of the parties that a judgment that invalidated fewer than all five claims would not be sufficient to satisfy the condition subsequent and allow withdrawal of the Goldfarb option.

Pursuant to remand from the Court of Appeals, the parties have engaged in discovery into the intent of the parties regarding the terms of the 1984 Settlement Agreement. The Court of Appeals noted that this Court would be "assisted in ascertaining that by allowing the parties to engage in discovery, particularly insofar as it reveals the circumstances leading to the execution of the settlement agreement." *C.R. Bard. Inc. v. W.L. Gore & Assocs.*, No. 97-5563, (3d Cir. July 9, 1998). slip op. at 5.

Now that discovery in this case is complete, the parties are in agreement that discovery unearthed nothing about the intent of the parties when writing and agreeing to the terms in Paragraph 6 beyond the plain meaning of those terms. The lawyers for both sides were deposed and offered no insight into any special meaning or intent behind the words chosen, and the surrounding circumstances have not changed. Thus,

the Court finds that it is in a similar position as that of three years ago when it determined that the meaning of the terms of Paragraph 6 was plain on its face and that "final judgment . . . which holds invalid each and every one of the claims" means that a court's final judgment must specifically hold invalid every one of the claims—"*i.e.*, claims 9, 12, 16, 35, and 36 of the United States Patent No. 4,187,390"—before Bard would be entitled to withdraw the Goldfarb option. That meaning still appears plain on its face. "Each and every one of the claims," followed by a recitation by number of those five claims, means all five claims, not four out of five. Thus, the Court finds that Gore has met its summary judgment burden of demonstrating that it is entitled to judgment as a matter of law dismissing Bard's claim for declaratory relief.

However, Bard asserts that this Court should find instead that, as a matter of law, the term "holds invalid" has a broader meaning than the explicit holding of a court ruling on the claims before it and can accommodate its theory that the Arizona Judgment invalidated claim 36 by implication even though that claim was never before the Court.

Bard's argument that the Arizona decision held claim 36 invalid is two-fold. First, Bard argues that the Arizona court expressly held the entire '390 patent to be invalid and thus claim 36 was invalidated by the court along with the other four claims asserted against IMPRA. Second, Bard argues that because claim 36 is derivative of claims 9 and 35 and, since the Arizona court declared invalid claims 9 and 35, it necessarily declared claim 36 invalid as well. The Court will address Bard's arguments in turn.

b) *Express Invalidation of Claim 36*

As to Bard's claim that the Arizona decision expressly invalidated the entire '390 patent and therefore all claims in that patent, it is true that at times the Arizona court's opinion and the initial judgment issued with it speak in broad terms

and may seem to be invalidating the entire '390 patent and not just the four claims that were the focus of the Arizona litigation. The judgment originally issued states. "5. The '390 Patent was anticipated by Sumitomo. 6. The '390 Patent was obvious. 7. The '390 Patent did not meet the enabling requirement of 35 U.S.C. § 112." *See W.L. Gore & Assocs. v. IMPRA*, 16 U.S.P.Q.2d 1241, 1264 (D. Ariz. 1990). On its face, the court's ruling on anticipation, obviousness, and enablement does not seem limited to any specific claim in the patent, but rather seems to apply to the entire '390 Patent.

However, the Arizona court issued an Amended Judgment that stated that a "clerical error of the clerk" had resulted in the wrong judgment being entered. The Amended Judgment, which constituted the court's finding and judgment on the case before it according to Rules 52(a), 54, and 58 of the Federal Rules of Civil Procedure, specifically references by number the four claims that were before the court when stating each of the court's findings. Thus, the Amended Judgment states instead: "5. *Claims 9, 12, 16 and 35* of the '390 Patent were anticipated by Sumitomo. 6. *Claims 9, 12, 16 and 35* of the '390 Patent were obvious. 7. The '390 Patent did not meet the enabling requirement of 35 U.S.C. § 112 *with respect to claims 9, 12, 16 and 35*." (Amended Judgment, Ellis Decl. Ex. 1-3) (emphasis added).

It is disingenuous of Bard to argue that the Arizona court expressly held invalid the entire '390 Patent when the court so clearly took pains to clarify its ruling so that it could not be construed to apply to all claims in the '390 Patent and to emphasize that its holding applied only to the four claims actually presented to and litigated before the court. The Arizona court's final judgment did not expressly hold the entire '390 Patent invalid.

c) *Implied Invalidation of Claim 36*

Bard also asserts that the Arizona Judgment invalidated Claim 36 by implication. Bard argues that to interpret the Arizona court's holding as restricted to its Rule 52(a) findings and rulings as contained in the Amended Judgment would "put[] too narrow a gloss on the word 'held.'" (Pl.'s Br. at 15). Rather than interpret the court's "holding" as its ruling on the claims that were before it, Bard argues that a court's holding can encompass additional matters that are "implicit" in the court's legal opinion and in the collateral effects of its decision. In sum, Bard urges this Court to accept that the "holdings" of a case "may be implicit as well as explicit." (Pl.'s Br. at 18).

The plain language of the 1984 Settlement Agreement requires that the holding of the federal court be part of a final judgment in order to meet the terms of the condition subsequent. Thus this Court must view the Arizona court's holding in conjunction with its final judgment. The Arizona action was tried to the court. The trial court issued findings of fact and conclusions of law as required by Rule 52 of the Federal Rules of Civil Procedure and entered judgment as required by Rule 58. As discussed above, the final judgment issued by the Arizona court referenced only claims 9, 12, 16, and 35, and not claim 36.

Bard's argument that the holding of a court may be inferred from its opinion may have been more viable prior to the 1963 amendments to the Federal Rules of Civil Procedure, which clarified what constitutes a final judgment. Historically, appeals courts reviewing a trial court's judgment sometimes inferred the terms of the trial court's final judgment from the trial court's opinion if the trial court failed to enter a clear judgment order in the case. *See, e.g., United States v. F. & M. Schaefer Brewing Co.*, 356 U.S. 227 (1958) (holding that an opinion, which embodies the essential elements of a

judgment and clearly evidences the judge's intention that it shall be his final act in the case, can constitute the final judgment, but that where an opinion by the trial court that "seemed to have the trappings of a judgment" was followed by a signed "formal judgment" entered by the judge, it was this final judgment, not the opinion that governed); *Steccone v. Morse-Starrett Prods. Co.*, 191 F.2d 197 (9th Cir.1951) (finding that a memorandum opinion signed by the district court judge that adjudicated all of the matters in controversy and set forth the orders of the court was considered the final judgment); *In re Forstner Chain Corp.*, 177 F.2d 572 (1st Cir.1949) (where the district judge filed a document titled "Opinion" that reached the conclusion that a claim of a patent was invalid, the language of the opinion indicated that a judgment was to be entered and the local practice indicated that no subsequent formal procedures were required, the appellate court held that the opinion was the judgment). The so-called *Schaefer* test required an inquiry into the intention of the judge when rendering the opinion to determine what was the final judgment rendered by the court. *See Schaefer Brewing*, 356 U.S. at 233 ("While an opinion may embody a *final decision*, the question whether it does so depends on whether the judge has or has not clearly declared his intention in this respect in his opinion."). In *Schaefer*, the Supreme Court found that regardless of an opinion issued by the court, the court's *final decision*, the holding on the matters presented to the court, was embodied in the final judgment entered subsequent to the court's opinion, not in the statements in the opinion. *See id.*

Even applying *Schaefer* to the present matter, it is clear that, like the district judge in *Schaefer*, the Arizona court did not intend its opinion to be the final judgment in the case. It could not be any clearer from the language of the court's Amended Judgment that the court intended to rule only on claims 9, 12, 16, and 35 and not to pass judgment on the entire '390 Patent or any other claims. Even under *Schaefer*,

there is no room to imply a meaning from the court's opinion beyond that contained in the court's judgment, especially when the court has taken pains objectively to express its intention by clarifying the effect of its opinion through an amended judgment that was intended to erase any possible confusion caused by an erroneously docketed, less-specific judgment.

However, this Court need not apply the *Schaefer* standard because the Federal Rules of Civil Procedure have simplified its inquiry. The *Schaefer* test was viewed as "unworkable" by some commentators because courts were in disagreement as to whether the final holding of the court could be objectively inferred from the opinion. *See* 10 Wright & Miller § 2651 at 12-13. As a result, Rule 58 was amended in 1963 to clarify perceived difficulties in applying the *Schaefer* test to determine what qualifies as a final judgment. Inquiry into the judge's intent was eliminated and there is now a bright line rule. *See* 10 Wright & Miller § 2651 at 13. Rule 58 now states: "Every judgment shall be set forth on a separate document. A judgment is effective only when so set forth . . ."). *Fed. R. Civ. P.* 58. Thus, "it no longer is possible for a decision to constitute a judgment unless that requirement is satisfied." 10 Wright & Miller § 2651 at 13.

As stated above, the holding of a federal court must be embodied in a "final judgment" in order to satisfy the requirements of Paragraph 6 of the 1984 Settlement Agreement. The terms "final judgment" and "holds invalid" in the 1984 Settlement Agreement are dependent upon one another. For this Court to determine the "holding" of the Arizona court, this Court must look to the final judgment that was entered in the case. As stated above, that final judgment is represented by the Amended Judgment issued after trial to the court pursuant to Rule 58. That final judgment lists Claims 9, 12, 16, and 35 as those which were invalidated. The Amended Judgment removes any doubt as to whether the

court's holding encompassed Claim 36 or any other claims in the '390 Patent that were not dealt with in the Amended Judgment. Applying both the *Schaefer* rule and the clear language of the Rules of Civil Procedure, the Court is satisfied that the "final judgment" in the Arizona case cannot be expanded beyond what is stated in the final judgment rendered by the court. That final judgment did not encompass Claim 36. The Court sees no room to imply a holding beyond that reflected in the final judgment. Given the evolution of the case law and the Rules of Civil Procedure on this issue, and the plain language of the 1984 Settlement Agreement, the Court is unable to accept Bard's theory that a court's "holding" in a case may be inferred from an expansive reading of a court's opinion rather than from the terms of the judgment issued by the court in conjunction with that opinion.

Bard presses two creative arguments on the Court. First, it urges the Court to compare "holdings" to "dicta" and argues that anything stated in the Arizona court's opinion that is not dicta is part of the holding of the case. Thus, because the Arizona court's broad language regarding the anticipation, obviousness, and enablement of the '390 Patent are not dicta, they must be the holding of the court and thus must apply to claim 36. Second, Bard asks the Court to consider the collateral estoppel effects that the Arizona Judgment would have and argues that the estoppel effect of the decision is equivalent to its holding. Bard argues that, because of the Arizona Judgment, Gore would be collaterally estoppel from asserting the validity of claim 36 in a subsequent case. Thus, Bard argues that the invalidation of claim 36 must be part of the "holding" of the Arizona Judgment. Because of the specificity with which the Arizona court spoke in the Amended Judgment, and because the circumstances which led to the Amended Judgment were an inadvertently too-broad expression of the Arizona court's decision in its original judgment, there is now no room for Bard to argue that the true meaning of the Arizona Amended Judgment is

what the Arizona judge deleted and replaced because it was too broad. This is the effect of Bard's creative argument, which this court rejects.

Underlying Bard's collateral estoppel argument is its view that another court would preclude Gore from defending the validity of claim 36 because of what the Arizona court ruled. The court disagrees.

Bard argues that claim 36 is "derivative" of claims 9 and 35 and that if claims 9 and 35 are invalid, a claim that is "derivative" of them must be invalid too. In the area of adjudicating the validity of patent claims, it is particularly inappropriate to allow the invalidation of one claim to "spill over" and adversely affect the validity of a claim not expressly invalidated. This is so because each claim of a patent is independent of other claims of that patent and is presumed valid independent of the validity or invalidity of other claims of the patent. *See* 35 U.S.C. § 282 ("Each claim of a patent . . . shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim."); *see also Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 301, 319 (1909) ("[Patent] [c]laims are independent inventions. One may be infringed, others not. . . . One claim may be valid, all the rest invalid,—invalid for the want of some essential patentable attribute. . . . [T]he patent does not stand or fall as a unity.").

It follows that the fact that two claims of a patent are invalidated does not mean that a third claim that is a combination of some of the elements of those invalid claims is necessarily invalidated as well. Claim 36 is a combination of parts of claims 9 and 35, but that does not mean that it is derivative of those claims. Claim 36 is similar to claim 35 in shape only and it is dissimilar in strength and crystallinity. Claim 36 is similar to claim 9 in strength and crystallinity, yet its structure is different, claim 9 being a polytetra-

fluoroethylene polymer and Claim 36 being a tetrafluoroethylene polymer. Thus, claims 9 and 35 are distinct claims from claim 36 and claim 36 cannot be said to be derivative of the other two. The fact that claim 36 may have some of the elements of claims 9 and 35 does not make it a derivative claim. Combination claims are not derivative claims, they are claims in their own right. Thus, the fact that the two claims that were invalidated have similarities to claim 36 does not mean that claim 36 itself was necessarily invalidated as a result.

Finally, Bard has pointed to no evidence that its unique understandings of a court's holding—that is, that the term "holds invalid" can accommodate an "implied" holding contradictory to its express holding or a speculative collateral estoppel effect thereof—were even remotely contemplated by any of the parties at the time they drafted and entered into the 1984 Settlement Agreement. If Bard had a different understanding of the meaning of the word "holds" in Paragraph 6, it did not communicate that meaning to Gore at the time the parties entered into the 1984 Settlement Agreement.

d) *Conclusion*

The Court finds that Bard's reading of the meaning of "holds invalid" is not supported by any evidence. Rather, Bard's argument flies in the face of the commonly understood meaning of the words "a final judgment of a United States court . . . which holds." Holdings of cases are explicit and they address the issues that have been presented to the court. Holdings are not implied from the similarity of the claims decided to other claims not asserted, especially in the area of patent litigation. Holdings also are not derived by analogy from the issue-preclusive effect that a judgment may have. Holdings are the court's rulings on the issues before it. For a court to rule on issues and claims not before it would be a denial of due process in the plainest sense. Because claim 36 was not before the Arizona court, it did not form part of that court's holding.

Bard and Gore are sophisticated commercial entities that manufacture and market sophisticated medical devices. They are confronted with patent issues frequently. They also were represented by highly competent legal counsel, with specialized expertise in patent matters, in the Initial Action and said counsel negotiated and executed the 1984 Settlement Agreement. As noted in this court's 1997 opinion, the Court will not rewrite the voluntarily negotiated and mutually adopted 1984 Settlement Agreement just because one of the parties is unhappy with it now. Because of the absence of any evidence supporting Bard's current reading, the Court finds that these sophisticated parties and their competent legal counsel meant what they said when they set forth the very specific requirement that a federal court must hold invalid "each and every claim asserted against Bard," and then went on to list by number all five claims, "claims 9, 12, 16, 35 and 36," before the Goldfarb option may be withdrawn. This precise language plainly requires that all five claims, not four out of five, be invalidated by the final judgment of a federal court before Paragraph 6 could be operative.

Accordingly, Bard was not justified in withdrawing from Gore the Goldfarb option. The Court finds that the 1984 Settlement Agreement requires that each and every one of the five claims asserted against Bard in the Initial Action be held invalid by a federal court before Bard would be justified in withdrawing the Goldfarb option. Because the Arizona Judgment invalidated only four of those five claims, it does not satisfy the conditions of Paragraph 6.[2] Summary judgment will be entered in favor of Gore dismissing Bard's complaint in this respect.

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[2] Because the Court finds that the plain meaning of the terms "holds" and "each and every claim" are dispositive against Bard's case, it need not reach the issue of whether or not the vacated Arizona Judgment was a "final judgment from which no appeal has been or can be taken" within the meaning of Paragraph 6.

2) *Breach of the Covenant of Good Faith & Fair Dealing*

Bard also has asserted a claim that Gore breached the duty of good faith and fair dealing by asserting in the Arizona action only four of the five claims asserted in the Initial Action. Bard claims Gore did so in order to assure that the condition subsequent of Paragraph 6 would not be met. Bard argues that by hindering the occurrence of the condition subsequent, Gore exercised bad faith and that, as a result, this Court should excuse the condition subsequent and find that Bard was justified in withdrawing the Goldfarb option.

New Jersey contract law recognizes an implied covenant of good faith and fair dealing in the performance of every contract. *See Sons of Thunder, Inc. v. Borden, Inc*, 148 N.J. 396, 420-21 (1997): *Bak-A-Lum Corp. of Am. v. Alcoa Building Prods., Inc.*, 69 N.J. 123 (1976). However, the covenant does not override the plain terms of a contract, and a party is entitled to adhere to the terms of the contract even if the result may be unfavorable to one of the parties. *See, e.g., Darche v. Beatrice Foods Co.*, 538 F. Supp. 429, 435 (D.N.J. 1981) (declining to invoke the covenant of good faith and fair dealing where defendant exercised a contractual right to terminate): *Karl's Sales & Service, Inc. v. Gimbel Bros., Inc.*, 249 N.J. Super. 487, 495 (App. Div. 1991) (finding that when a party to a contract has the contractual right to terminate for any reason, the party's motive in exercising that right is immaterial). To maintain such a claim, Bard must demonstrate more than the fact that Gore abided by and endeavored to preserve the terms of the settlement agreement. Bard must point to some evidence that demonstrates bad faith on Gore's part which somehow deprived Bard of its rights under the contract.

Bard does not argue that the product at issue in the Arizona action infringed Claim 36 of the '390 Patent and that Gore thus should have asserted claim 36 in the Arizona action. In fact, in its opposition brief, Bard acknowledged that it "does

not contend that Gore was legally obligated to assert all possible claims against all infringers." (Pl.'s Br. at 37) (emphasis in original). Rather, Bard argues that "the substance of Gore's allegations in the Arizona action necessarily implied an allegation that claim 36 was infringed by IMPRA." (*Id.* at 38). But, as discussed above, each patent claim stands on its own. An infringement of two claims does not necessarily mean that a third claim comprised of components of the other two has also been infringed. The fact that Gore believed that IMPRA infringed claims 9 and 35 does not mean that Gore also should have sued on Claim 36, and Bard has pointed to no evidence in the record demonstrating infringement of Claim 36 was "necessarily implied" in any way and that Gore thus acted in an underhanded manner when it failed to assert infringement of Claim 36. Bard thus has not pointed to evidence that the failure to assert claim 36 was an act demonstrating bad faith designed to hinder the occurrence of the condition subsequent in Paragraph 6.

Bard also claims that Gore showed bad faith by procuring a vacatur of the Arizona Judgment from the Federal Circuit when the case was settled while on appeal. This claim fails for two reasons. First, as Gore pointed out, it was the routine practice of the Federal Circuit to vacate lower court judgments in such cases when they become moot during the appeal, *see e.g., U.S. Phillips Corp. v. Windmere Corp.*, 971 F.2d 728, 731 (Fed. Cir.1992) ("This court has held that vacatur of the judgment at trial is appropriate when settlement moots the action on appeal."). This Court does not see how asking the Federal Circuit to follow its routine practice could possibly amount to bad faith. Second and more importantly, as discussed above the Arizona Judgment did not meet the "each and every claim" requirement of Paragraph 6 and thus did not justify Bard's withdrawal of the Goldfarb patent. Therefore, whether Gore secured a vacatur of the Arizona

Judgment is immaterial because that judgment did not meet the requirements of the condition subsequent justifying withdrawal of the Goldfarb patent.

The Court finds that Bard has not pointed to evidence that could sustain its claim that Gore breached the covenant of good faith and fair dealing. Therefore, the Court will grant summary judgment to Gore on this claim.

/s/ John C. Lifland
JOHN C. LIFLAND
United States District Judge

Dated: August 14, 2000